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SUBJECT: HOW ECONOMIC DECISIONS GET MADE IN VIETNAM

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¶1. (SBU) Summary: In place since June of 2006, Vietnam's Prime Minister and his deputy have taken greater control of economic policy and its implementation, increasingly dominating the traditional consensus decision-making process of the Politburo. While Hanoi-based economists state that the Communist Party of Vietnam (CPV) still plays a key role in setting economic strategy and important policy matters, they emphasize that these men have won greater leeway within the CPV in the wake of economic policy successes exemplified by Vietnam's WTO entry and the country's strong economic performance. In their opinion, the efforts of the Prime Minister will be positive for economic reforms and government efficiency. In the south, however, contacts aligned with former PM Vo Van Kiet hold a different point of view and see PM Dung as less of a reformer, dominating the Politburo and using his authority to strengthen centralized Party control.

¶2. (SBU) The CPV is supposed to set overarching economic strategy and direction for the Government of Vietnam (GVN) while relevant government agencies draft specific measures, the public discusses the proposals, and the National Assembly passes laws. Vietnam's vaunted consensus-driven process ensured a balance of interests but was both slow and cumbersome. The concentration of power in Prime Minister Dung has already led to faster and clearer decision making, but contacts differ widely on whether Dung is fundamentally a reformer or a hardliner. End Summary.

¶3. (SBU) According to foreign and domestic economic analysts, economic decision making in Vietnam has undergone an important shift under the new leadership of Prime Minister Nguyen Tan Dung and Deputy Prime Minister Nguyen Sinh Hung, with the government cabinet under the two men obtaining greater, though by no means complete, control over economic decisions. Il Hwang Lee, Senior IMF Representative to Vietnam, told Econoff that while the CPV used to focus more on day-to-day economic management in the past, it now appears to be focusing more on strategy, giving the cabinet, under PM Dung's leadership, responsibility to set policy. "The party is starting to focus more on stability issues and leaving policy issues alone," Lee said, noting that Dung and Hung's successes with Vietnam's WTO accession and Vietnam's impressive economic

performance had helped the men gain credibility among other leaders in the CPV. While Lee and others caution that this expanded power is still highly circumscribed, Lee added that "the current arrangement is to allow Dzung to have the power to run the economy, with the old guard stepping back more and observing him. He seems to have carved out his own economic powers." Dzung's rapport with foreign donors is giving him "extra mileage" with the CPV in the policy-making process, he added, an arrangement he does not expect to change as long as Vietnam's economic success continues and the country's "political stability" -- and the dominance of the CPV -- is not threatened. The previous World Bank Country Director and Resident Representative Klaus Rohland put the shift a different way: while the consensus decision making process meant that in the past 80 percent of relevant stakeholders had to be on board before a decision was made, Dzung's stature meant he only needed 60 percent in favor.

14. (SBU) Dzung's background is well known. He spent his teenage years as a Vietcong medic fighting in the Mekong Delta and moved into district and provincial government in 1975. Brought to Hanoi to serve in the Ministry of Public Security, he later served as the Director of the CPV Central Committee's Economic Commission, in charge of the Communist Party of Vietnam's financial affairs and as Governor of the State Bank while simultaneously serving as Deputy Prime Minister, in 1998 and 1999. He also served as Chairman of the National Financial and Monetary Council and as head of the Party Central Committee Steering Board for Reorganization of State-Owned Enterprises. While some observers assert that Dzung, lacking a formal economic education (his degree is in law), does not have a solid grasp of economics, Lee and other economists note that his background provides him with a comfort level with economics that has served him well to date. They say his extensive experience with modern economic decision making makes him far different than his war-generation predecessors, including Phan Van Khai, the previous Prime Minister from 1997 to 2006. While it should be remembered that Dzung remains a product of and core insider within the CPV, he also represents a new breed of more technocratic leaders within it,

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international economists note.

15. (SBU) An alternative view comes from journalists and businesspeople in southern Vietnam. In their view, PM Dzung is the consummate politician, not a technocrat. Since becoming Prime Minister, they say he has orchestrated cult of personality style media coverage to emphasize his leadership. Vietnamese newspapers run daily front-page photos of the PM engaged in a range of duties - meeting the people, meeting with government workers, meeting with foreign visitors. His views on a broad range of subjects are daily headlines: "PM Dzung orders swift action against bird flu", "PM encourages Thais to do business in Vietnam", "PM urges all localities to battle El Nino". Vietnam's other leaders, President Nguyen Minh Triet and CPV General Secretary Nong Duc Manh, have a much lower media profile. PM Dzung is also using the Internet in ways not previously attempted by Vietnamese leaders; he is the first Prime Minister to engage in an online chat with Vietnamese citizens.

16. (SBU) HCMC contacts say PM Dzung's military and law enforcement background is much stronger than his economic experience. They attribute the Prime Minister's rise to power through his work in Vietnam's security apparatus. His economic work came fairly late in his career and was undertaken simultaneously with other positions. One journalist told the Consul General that PM Dzung took advantage of an unexpected vacancy when he took over the governorship of the State Bank of Vietnam for a year, while he also was serving as Deputy Prime Minister; the journalist characterized PM Dzung's SBV service as a political move calculated to polish his economic credentials.

17. (SBU) Below the PM are two Deputy Prime Ministers, one of whom traditionally takes the lead for economic matters. This DPM is currently Deputy Prime Minister Nguyen Sinh Hung, a reformer who was elevated to the position last June from his previous role as Minister of Finance, a job he had held since 1996. Hung holds a Ph.D. in economics earned in Bulgaria and is the government's

strongest and steadiest economic hand. Hung currently chairs the government's National Monetary and Financial Advisory Council and even makes some decisions on behalf of the Prime Minister, said Vivek Suri, an Economist at the World Bank in Hanoi.

"The DPM position is key because he, not the PM, will often sign important economic legislation," he said. For example, a recent law related to banking reform was signed by DPM Hung, Suri said. "Hung is quite dynamic," said Suri. "And he is in charge of economic policy, so you have a champion of reform holding the key economic position." DPM Hung also pronounces frequently on issues regarding Vietnam's stock market.

Role of Party and Government in Policy Changing

18. (SBU) Though the formal decision-making process is highly regimented, economists note that decisions are highly reliant on informal power networks. These informal networks are critical in influencing government and Party bureaucracy, which has the power to block or delay new measures because of the Vietnamese traditional system of consensus-based decision making.

19. (SBU) Formally, the Communist Party sets the strategic direction of economic policy, but first consults with a range of researchers and others before issuing guidelines for government officials to implement, economists note. The broad outlines of strategy are outlined at each five-year Communist Party Congress. The last Congress, held in May 2006, for example, gave approval for the continued integration into the international economic community via the World Trade Organization and "equitization," the GVN term for the transformation of State Owned Enterprises (SOEs) into joint stock companies and their partial privatization, Suri noted. Aside from the Congress, plenums held three or four times a year also issue guidelines for policy makers. In cases of sensitive issues the Politburo also provides guidance via resolutions, many of which are not public, leading many analysts to decry the GVN's lack of transparency. The CPV's Central Economics Commission, which Dung used to head, is the key party organ examining economic policy, though six other CPV economics committees also examine economic issues. Recent public resolutions included those on judicial reform, banking reform, and human development, Suri said. The most recent CPV Plenum, held in January, also issued an important directive on the Vietnamese military divesting itself from a range

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of economic activities, a measure economists are eager to see take place (reftel).

110. (SBU) After the Party Congress, the National Assembly passes a five-year Socio-Economic Development Plan (SEDP), used by the Prime Minister and government policy makers generally. Using the SEDP and other CPV instructions as a guide, the PM then directs relevant ministries to draft specific new laws and/or policies. "The Prime Minister looks at the SEDP everyday," said Le Danh Doanh, a senior economist at for the government-owned Central Institute for Economic Management (CIEM). The generation of policy specifics is the responsibility of the department director, with the government often holding inter-ministerial workshops or passing new policies, regulations or draft laws throughout the government. These measures are often made public for debate, and it is not unusual for different government officials to air opposing views in the media. Such public debate is part of Vietnam's consensus-building process, creating buy-in from a range of society and interest groups, observers note. After this process, measures are approved by the Prime Minister's office, and in the case of legal changes, are then sent on to the National Assembly. Increasingly, the National Assembly itself has been reserving a more independent role, and in the case of recent reforms to Vietnam's labor code (allowing independent representatives to negotiate for workers in some strikes), it implemented changes that the national union, the Vietnam General Confederation of Labor, strongly resisted, and which the Prime Minister and Communist Party allowed to be made (reftel).

111. (SBU) The IMF's Lee gave the GVN high marks for its consultative process and for consulting with the international community on economic policies. "They hold very frank discussions... and they

consult us on everything," he said. He noted that in many cases, this advice is taken, and noted that in February an IMF paper urged officials to resist the temptation to impose capital controls on foreign investment in order to cool Vietnam's white-hot stock market. The advice was kept, with the GVN making pains to distance itself from rumors that the government would impose capital controls to tamp down speculative foreign investment in Vietnam's soaring stock market. (Note: There were also many others, such as the U.S. Department of Treasury, private sector bankers, and even other Vietnamese officials who were providing similar advice. End note.) In any event, the PM later issued a notice similar to a range of other earlier IMF proposals, including those urging the GVN to focus more on better enforcement of market regulations and greater transparency.

Personnel and Organization Changes Expected

¶12. (SBU) The current leadership configuration has started to implement several administrative reforms now underway and observers expect a government personnel shake-up to follow the National Assembly elections in late May. In line with PM Dzung's 2007 initiative to undertake administrative reform, economists within and without the GVN expect ministries, such as the Ministry of Fisheries, to close and the roles of several other ministries, such as the Ministry of Finance and Ministry of Planning and Investment, to change. "There has been a general dissatisfaction with the way the government functions, and a generally well-recognized problem with poor coordination," the UNDP's Pincus said. Economists widely expect the MOF to take greater responsibility for capital spending and the budget process at the expense of the Ministry of Planning and Investment (MPI) and MPI to lose power as it becomes more like a "ministry of economic reform," similar to a body that exists in China, Pincus said.

¶13. (SBU) The Office of the Government (aka the Prime Minister's Office) has also begun to take on a stronger role, something reflected in a variety of moves. A recent decision of the Office of Government (OOG) to take coordination of a study on government strategy to 2020 away from MPI reflects Dzung's efforts to boost the power of the office and the declining stature of the ministry. Dzung's decision to eliminate the quasi-independent Prime Minister's Research Council is another indication of an effort to streamline decision-making. "It seems the PM is more interested in moving more power to the Office of Government to act as a White House, stocking it with professionals who can give good advice, acting like a Downing Street," said World Bank Country Director Rohland. Other recent institutional reform measures included a decision to reduce the number of CPV Economic Commissions from 11 to six and reducing

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the status of the Central Institute of Economic Management, which used to serve as an important government think-tank under the MPI. The re-alignment will likely strengthen the MOF and help cut down on the bureaucratic stove-piping that is harming the efficiency of government decision making, Pincus said.

¶14. (SBU) Personnel changes will also occur. One important change will likely be the management over the State Bank of Vietnam (SBV), with the expected departure of SBV Governor Le Duc Thuy. In contrast to the powers of the Prime Minister, SBV Governor Thuy currently exercises little relative power over key decisions such as setting interest rates. Nguyen Dinh Cung, Director General of the Macroeconomic Policy Dept of the Central Institute for Economic Management (CIEM), told Econoff that recent corruption scandals -- one involving Thuy's attempt to take personal ownership over a valuable home in central Hanoi and another involved his son's being given a lucrative contract to print Vietnam's official currency -- have damaged Thuy's credibility. "The State Bank governor is quite weak," Cung said. Others attribute Thuy's weak position to his resistance to follow maneuvering by some influential CPV members to get him to leave his position as Governor earlier last year, and see the corruption charges as orchestrated to counter his intransigence.

¶15. (SBU) Of all the changes, economists note the character of

Thuy's replacement will provide an important indicator of the tone and direction of future economic policy. Vietnam policy makers have already stated their intention to move the SBV toward a more independent role, in line with the received wisdom on promoting more economic stability in a developed economy. Such independence is lacking now, partly because of Thuy's weakness, both politically and as a policy maker, and the GVN needs a stronger, more competent hand to implement those changes. Some would like to see someone similar to the current Le Thi Bang Tam, Chairwoman of the State Capital Investment Corporation.

¶16. (SBU) The appointment of a reformer is not a foregone conclusion, however, Pincus noted, primarily because anti-reform elements within the CPV and within State Owned Enterprises (SOEs) are far more powerful than many wish to admit and will resist it. Pincus blasted The World Bank and investment banks such as Merrill Lynch and UBS issuing glowing reports on the state of the economy and touting the country's investment opportunities in the face of this challenge from anti-reformers. They could easily scuttle any attempt to advance reform through personnel changes, he said. "If the next governor is some old party guy then it will be clear--someone has paid them off," Pincus said.

¶17. (SBU) Among the most difficult challenges is equitization. While the Party Congress indicated that equitization should continue, it also laid out a process of equitization ensuring State control over many state-owned firms and allowing an insider-influenced process of equitization that has to date resulted in the issuing of SOE shares to a combination of managers, other SOEs and even GVN officials. This process has in turn created a complex web of cross-ownership and interlinked interests, often with the objective of protecting enterprises from privilege-reducing or monopoly-busting reforms, critics including Pincus assert. It may be, therefore, naive to believe that Dzung, Hung and others will be able to have a radical impact on reforms. In fact, southern contacts say that these leaders are the establishment and seek first and foremost to make the Party and the state more effective in controlling the economy. UNDP's Pincus is more sanguine. "The good news is that the government is committed to reform," Pincus said. "The bad news is that the politics and the money may overrun their intentions."

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